

KENTUCKY TEACHERS' RETIREMENT SYSTEM
REGULAR QUARTERLY MEETING OF THE BOARD OF TRUSTEES
DECEMBER 16, 2013

Minutes of Meeting:

After giving proper notice of a regular quarterly meeting, and a quorum being present, Chair Tom Shelton called the KTRS Board of Trustees to order at 10 a.m., Monday, December 16, 2013 in the Board Room of the Kentucky Teachers' Retirement System Office, 479 Versailles Road, Frankfort, Kentucky.

Members present were:

Tom Shelton, Chair
Laura Zimmerman, Vice Chair
Arthur Green
Hollis Gritton
Jay Morgan
Ron Sanders
Ruth Ann Sweazy
Todd Hollenbach, State Treasurer (arrived at 10:19 a.m.)
Charles Harman, Proxy for the Commissioner of Education

Others present were:

Gary Harbin, Kentucky Teachers' Retirement System
Eric Wampler, Kentucky Teachers' Retirement System
Robert Barnes, Kentucky Teachers' Retirement System
Paul Yancey, Kentucky Teachers' Retirement System
Kevin Carrico, Kentucky Teachers' Retirement System
Mark Whelan, Kentucky Teachers' Retirement System
Jane Gilbert, Kentucky Teachers' Retirement System
Nate Van Sickle, Kentucky Teachers' Retirement System
Felicia Penn, Kentucky Teachers' Retirement System
Kayne Ishmael, Kentucky Education Association
Fred Hester, Kentucky Education Association-Retired
Patti Hester, Kentucky Education Association-Retired
Patsy Rainey, Kentucky Retired Teachers Association
Teresa Sanders, Office of the State Budget Director
Ed Koebel, Cavanaugh Macdonald Consulting, LLC
Eric Gary, Cavanaugh Macdonald Consulting, LLC
Tim Mulloy, Peritus Public Relations
Mike Wynn, Courier-Journal

1. Reports for Consent:

Chair Shelton reviewed the draft minutes of the September 16, 2013 meeting and asked the Board to take action on the minutes.

Board Action: The Board considered the minutes of the Quarterly Meeting of the Board of Trustees held September 16, 2013. Upon motion duly made by Mr. Green, and seconded by Dr. Morgan, the minutes were unanimously approved by the Board as written.

Chair Shelton reviewed the draft minutes of the November 18, 2013 Special Meeting and asked the Board to take action on the minutes.

Board Action: The Board considered the minutes of the Special Meeting of the Board of Trustees held November 18, 2013. Upon motion duly made by Mr. Harman, and seconded by Mr. Sanders, the minutes were unanimously approved by the Board as written.

Chair Shelton reviewed the draft minutes of the December 10, 2013 Special Meeting of the Legislative Committee and asked the Committee to take action on the minutes.

Committee Action: The Committee considered the minutes of the Special Meeting of the Legislative Committee held December 10, 2013. Upon motion duly made by Ms. Sweazy, and seconded by Ms. Zimmerman, the minutes were unanimously approved by the Committee as written.

Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits and Refunds: Mr. Wampler reported to the Board regarding benefit payments. Chair Shelton asked the Board to take action on the report of benefit payments.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Gritton, the Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits and Refunds were unanimously approved by the Board as reported.

Interim Financial Statements: The Board considered the report on the Interim Financial Statements for the quarter ended September 30, 2013. The report was informational and the Board took no action on the Interim Financial Statements.

2. Report of the Investment Committee: Mr. Yancey reported to the Board concerning investment performance for the quarter ended September 30, 2013 and the Special Meeting of the Investment Committee held on November 14, 2013.

Chair Shelton asked for questions or comments. Chair Shelton asked the Board to take action on the report of the Investment Committee.

Board Action: Upon motion duly made by Mr. Sanders, and seconded by Ms. Zimmerman, the Board voted unanimously to accept and ratify the Report of the Investment Committee.

3. Actuarial Valuation Reports: Ed Koebel of Cavanaugh Macdonald Consulting, LLC presented the Report of the Actuary on the Annual Pension Valuation prepared as of June 30, 2013. Eric Gary of Cavanaugh Macdonald Consulting, LLC presented the Report of the Actuary on the Annual Valuation of the Retiree Medical and Life Insurance Plans prepared as of June 30, 2013.

Chair Shelton asked for questions or comments. Chair Shelton asked the Board to take action on the Actuary's reports.

Board Action: The Board voted unanimously to approve the Reports of the Actuary on the Annual Valuations.

4. Report on Funding Policy: Mr. Wampler reported to the Board concerning the proposed "Policy on Annual Retirement Appropriations Payable by the State."

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Harman, the Board voted unanimously to adopt the proposed "Policy on Annual Retirement Appropriations Payable by the State" and authorized staff to amend the "Board of Trustees Governance Manual" to include the Policy.

Chair Establishes Committee and Appoints Members: Chair Shelton announced that he established a "Special Committee on Benefits and Funding" to evaluate benefits and funding issues concerning KTRS. Chair Shelton also announced appointments to the Committee as follows: Jay Morgan, Chair, Arthur Green, Vice Chair, Todd Hollenbach, member, and Tom Shelton, alternate member.

The Board recessed at 11:33 a.m. and resumed its meeting at 11:44 a.m.

5. Report of the Governance and Audit Committee: Mr. Sanders reported that the Governance and Audit Committee met in special session prior to the regular quarterly meeting of the Board on December 16, 2013. The Committee reviewed and accepted the external audit report of Mountjoy Chilton Medley, as amended, which was presented by Brad Smith and Michelle Deans. The Committee also reviewed the Internal Audit Strategy for Fiscal Year 2014, which was prepared by KTRS internal auditor Nate Van Sichel.

Chair Shelton asked for questions or comments. Chair Shelton asked the Board to take action on the Report of the Governance and Audit Committee.

Board Action: Upon motion duly made by Mr. Sanders, and seconded by Mr. Green, the Board voted unanimously to accept and ratify the Report of the Governance and Audit Committee held December 16, 2013.

6. Report of the Legislative Committee: Mr. Barnes reported that the Legislative Committee met in special session on December 10, 2013. The Committee reviewed and approved legislative and regulatory proposals for the 2014 session of the General Assembly. Mr. Barnes reported the proposed legislative and regulatory changes reviewed by the Committee with the entire Board.

Chair Shelton asked for questions or comments. Chair Shelton asked the Board to take action on the Report of the Legislative Committee.

Board Action: Upon motion duly made by Ms. Zimmerman, and seconded by Mr. Hollenbach, the Board voted unanimously to accept and ratify the Report of the Legislative Committee.

7. Report of the Scholarship Committee: Mr. Harbin reported that the Scholarship Committee met in special session prior to the regular quarterly meeting of the Board on December 16, 2013. The Committee received a report on the background of the Junita Losey Scholarship Program and the investment strategy and cash flow of the scholarship fund. The Committee voted unanimously to recommend to the full Board that a \$2,000 yearly scholarship be granted to each of the eight public universities in Kentucky and a \$2,000 yearly scholarship to a Campbell County High School senior who intends to major in education at a Kentucky public university.

Chair Shelton asked for questions or comments. Chair Shelton asked the Board to take action on the Report of the Scholarship Committee.

Board Action: The Board voted unanimously to accept and ratify the Report of the Scholarship Committee.

8. Insurance Update: Ms. Gilbert reported on the Consumer Driven Health Plan and a Preferred Provider Organization for the KEHP, the Medical Insurance Fund Income Statement, Humana's Medical Expense Ratio, and the Express Scripts Port St. Lucie customer service solution.

Ms. Gilbert's report was informational and the Board took no action.

9. Report on Federal Tax Compliance: Mr. Wampler presented a report on federal tax compliance.

Board Action: Upon motion duly made by Ms. Sweazy, and seconded by Mr. Hollenbach, the Board voted unanimously to authorize staff to file an Application for Determination for Employee Benefit Plan within the current Cycle C filing period.

10. Executive Secretary's Observations and Comments: Mr. Harbin reported to the Board on the Pathway Project and the 2013 Award for Administration from the Public Pension Coordinating Council, the Certificate of Achievement for Excellence in Financial Reporting and meetings attended by the Executive Secretary since the last quarterly Board meeting.

The Executive Secretary's report was informational and the Board took no action.

Adjournment

There being no further business to come before the Board of Trustees, and upon motion duly made by Ms. Sweazy, and seconded by Mr. Sanders, and by unanimous consent of the Board, Chair Shelton declared the meeting adjourned at 12:30 p.m.

Certifications

We, the Chair and the Executive Secretary of the Board of Trustees of the Kentucky Teachers' Retirement System, do certify that the Minutes of Meeting were approved by the Board on March 17, 2014.

Tom Shelton, Chair

Gary Harbin, Executive Secretary

I, Robert B. Barnes, do certify adherence to the Kentucky Open Meetings Act, KRS 61.800 et seq., in the conduct of this meeting. I have reviewed the minutes for form, content, and legality.

Robert B. Barnes, Deputy Executive Secretary and
General Counsel

I, Felicia Penn, do certify that I was present at the meeting and duly recorded the actions of the Board of Trustees of the Kentucky Teachers' Retirement System at its meeting on December 16, 2013.

Felicia Penn
Recording Secretary